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ABSTRACT

This paper, number 18 in a series, chronicles the politics of school finance reform in the state of California from the mid-sixties to the passage of Proposition 13. It provides a description of the school finance setting prior to the consideration of Assembly Bill 65, including such events as the Serrano I and II decisions and the state legislature's first response to the court mandate, Senate Bill 90. The major focus of the paper is the process by which AB 65 evolved from a series of proposals through the committees and floors of the two chambers into law. The final section of the paper examines the modifications caused by Proposition 13 on the school finance system in California. (Author)

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PAPERS IN EDUCATION FINANCE

PAPER NO. 18

THE SWORD AND THE MEAT-AX:
SERRANO, PROPOSITION 13 AND THE
SHAPING OF SCHOOL FINANCE IN CALIFORNIA

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On December 30, 1976, the California Supreme Court handed the legislature an item for its list of New Year's resolutions: reform the state's inequitable system of school finance. The court had issued its long-awaited "Serrano II" decision. As it had indicated in 1971, in its initial consideration of the landmark Serrano v. Priest case, the supreme court found the state school finance system unconstitutional because it relied too heavily on local property wealth and produced wide variations in the amount of money spent on education in California's 1,040 school districts. Those districts with high total property wealth could "have their cake and eat it too," the court said in 1971. "They can provide a high quality education for their children while paying lower taxes. Poor districts, by contrast, have no cake at all." Like the swallows' annual return to hover over Capistrano, the Serrano issue returned each year since 1971 to Sacramento. And four major school finance measures were passed during the six years it took for the Serrano case to make its way from fact-finding in a lower court back to the state supreme court. But in its ruling on the eve of the 1977 legislative session, the court found those efforts inadequate. It told the lawmakers to reduce spending disparities to substantially less than \$100 per pupil by 1980.

"We will make a try, but the political problems involved are horrendous," said Leroy F. Greene, Chairman of the Assembly Education Committee, in reaction to the ruling. "We can find solutions that are technically correct and also would work, but politically, you're walking through a minefield."

Lawmakers perceived two paths through that battlefield. Both had their hazards. One approach was to "level down" spending by taking money from property-rich districts to give to poorer ones. This Robin Hood strategy could cost nothing in new taxes. It would "merely" redistribute existing revenues, but at the political cost of lost votes of alienated parents, teachers and administrators in the higher wealth districts. Leveling down was distasteful to the educational establishment in general because it failed to enlarge the total school finance pie.

The other path was to level up low wealth districts by using state money to subsidize their property tax efforts. But price tags of \$2 to \$4 billion were attached to this approach, indicating that some new tax or increases in the state sales or income taxes would be necessary. And this was at a time when taxpayers were demanding relief from zooming property taxes. Such relief, which was the other top-priority item on the 1977 legislative agenda, would also require state money. And Governor Jerry Brown had vowed that there would be no new or increased state taxes while he was in office.

Also along the road to Serrano compliance were the usual educational interests: teachers unions, administrators, school districts of all levels of property wealth, big cities with their high proportion of minority group students and other special problems, parents of the handicapped and the gifted, and others. All would be attempting to shape any school legislation to the benefit of their constituencies. And such "outside" interest groups as taxpayer organizations, business, labor and agriculture, would also have an eye open for the tax effects of a school finance bill. If the legislature refused to act, or failed in its effort, there was the threat of a court-imposed school finance system.

Despite the obstacles, eight months after the Serrano II edict, Governor Brown was signing Assembly Bill 65, a comprehensive, \$4.3 billion, five-year plan which provided a program for bringing the system into "substantial compliance" with the Serrano II edict, including increases in categorical aid and a controversial school improvement reform measure. Although Brown called AB 65 "the most significant and far-reaching educational finance bill in the nation," he, and the many others who played a role in its creation, admitted it was not far-reaching enough to meet the specific standard set down by the court: reduce spending disparities to considerably less than \$100 per pupil by 1980. "Substantial compliance" was the buzz phrase for the political decision to go for half a loaf -- or in the case of AB 65, about 85 percent of a loaf -- and hope that the high court, which split 4-3 in the Serrano II ruling, would find that acceptable.

"Substantial compliance" was one aspect of the process of forging AB 65. Other elements conform in many respects to the "classic" pattern for success noted by students of school finance reform in the 1970's such as political leadership, a history of school finance efforts, considerable staff expertise, and compromise in consideration of a wide portion of the educational establishment. Perhaps most important, there was that protean California state surplus which materialized to pay for an omnibus bill with a little something for everyone in it -- without a state tax increase.

There was another element, a negative one as far as the Serrano plaintiffs and their lawyers were concerned. In the battle to build a bill that would muster a two-thirds majority vote, the original purpose of the effort, to equalize spending, was obscured, they charged. The senate, in fact, had been in favor of dealing only with Serrano compliance measures in the 1977 session. But the governor, important members of the assembly and the state superintendent of public instruction insisted on a broader approach dealing with a number of special programs and non-financial reforms. Some of their proposals became more controversial than Serrano-related measures in AB 65 as the bill moved through the house of the legislature. At times, they appeared to threaten the bill rather than serve to create a broader coalition for support of finance reform as such.

But the bill did pass and was signed by Brown on September 17, 1977, to mark the close of another chapter in the state's decade-long school finance saga. Proponents of the bill called it the "capstone" of school reform in the state. Serrano attorneys, however, called it "a fraud." Both sides were preparing to write, at the least, an epilogue to the story in court. But the pen was taken from their hands. The next chapter was composed by the voters of the state. They titled it "Proposition 13."

The architects of AB 65, who had had their eyes on the Sword of Serrano, found their creation hacked by the meat-ax of Proposition 13. This paper will look at the politics of AB 65, some of the effects of Proposition 13, and some of the issues that will face Sacramento once again when a new school bill must be fashioned to deal with those effects.

BACKGROUND

A decade of school finance reform efforts in California culminated in passage of AB 65. That state is sometimes called the "home" of a national movement aimed at correcting inequities in paying for public education in elementary and secondary schools. California's claim as origin of this movement rests on the Serrano v. Priest case, which was filed in 1968 on behalf of the parents of 27 California school-children.

Lower courts had dismissed the suit, but in 1971 the state supreme court said there appeared to be merit in the plaintiffs' contention that they were being unfairly required to pay higher tax rates to get the same or lesser educational opportunities for their children compared to districts with higher assessed valuation. The court said that if the facts alleged in the suit were true, the system could indeed be in violation of both the state and federal constitution's equal protection clauses. The ruling sparked similar suits and legislative action in states across the nation. Today about half of the states have adopted laws designed to smooth out disparities in their finance systems. Most use some form of state subsidy to close expenditure gaps among local school districts. Just how that is done, however, varies and has become a highly complex, technical area spawning a new breed of school finance expert.

School finance reform was an element of the general civil rights movement of the 1960's, although, perhaps because of its technical complexity, it lacked the visibility and dramatic appeal of other elements of that movement. There were no mass campus demonstrations, sit-ins and marches for school reform. But the spirit of school reform shared the same desire for social justice, as evidenced in this passage written by a participant of the reform movement:

"If one believes that greater resources should be spent on the education of children who are demonstrably the least likely to succeed -- the physically or mentally handicapped, the poor, the members of racial minorities -- the present pattern of resource allocation is simply wrong. It is the communities that are the richest, the whitest, and the socially advantaged that usually lead their areas in the quality and quantity of school services."*

One major thrust of reforms has been to correct inequitable gaps in expenditures, which exist especially in a system that relies heavily on local property taxes, reflecting local property wealth. Another major target is the fact that parents and other taxpayers in property-poor districts must tax themselves at rates two or three times as high as those in wealthier districts (sometimes neighboring ones). The need to decide whether to concentrate on the student expenditure or taxpayer equity side of the reform issue has frequently complicated school finance reform efforts.

*Joel Berke, Answers to Inequity, Berkeley, Cal: McCutchan Publishing Co., 1974.

Not all the interest or participation in reshaping school finance systems stems from a sense of social outrage. Because almost \$62 billion is spent on public schools nationally, with about 44 percent of that raised through local tax effort, the matter of how educational dollars are raised, distributed and spent affects not only education, but other public services and the very relationships of local, state and federal governments. Economic and social developments of the 1960s also stimulated interest in changing existing patterns of school finance.

Public education was falling from its pedestal of lavish support, prompted in part by disillusionment with declining achievement scores and other disappointing results despite that support. Inflation, demands for higher wages by teachers unions and the increasing competition for public money from welfare, police and other services put a squeeze on school districts. The growing discontent over rising property taxes also began to limit school spending. Enrollments were declining. The old educational coalition of parents, teachers and administrators split. These groups and others with an interest in education or taxes turned to the state, which has ultimate constitutional responsibility for the schools. They wanted the state to contribute a bigger share of educational dollars. In some states, including California, it was a question of survival.

In 1970, 30 California school districts went broke and begged the legislature for loans. Teacher employment was dropping; classroom size was growing. The state had dropped to 22nd in per pupil expenditures, while the state share of that bill had gone down from almost 50 percent in 1953 to 31 percent in 1971-72, putting an increasing burden on local property taxes, which in California were the highest in the nation in 1970. Two out of every three education tax and bond elections were being defeated.

At the start of the decade, California was operating on a foundation program of school financing. Elementary schools got \$355 per pupil and secondary school districts got \$488 per student. These support levels were significantly lower than what the average school district was spending: \$733 for elementary and \$973 for secondary schools. So almost all districts voted to tax themselves above the foundation level. With the squeeze on tax dollars, districts with relatively low amounts of assessed valuation became even more aware of the disparity between their tax effort and the revenue it produced. In 1970, assessed value per student ranged from a low of \$75 to a high of \$1,053,000; tax rates ranged from \$.39 to \$7.83; and expenditure per student ranged from \$200 to \$3,447.

In summary, from the standpoint of equity, the pressure on the property tax and the need for more educational dollars, the times seemed right for some type of change in California's system of school finance in 1971.

But there were also forces resisting change. The richer districts still were willing and able to spend more on their students. Any shift in the distribution of resources and tax burdens means there will be winners and losers. Efforts to equalize the system through statewide or countywide taxes had been proposed many times in the legislature, but never got anywhere in the face of opposition by business, agricultural and high-wealth-district forces.

Along came Serrano. The suit was based on the arguments and research of John Coons, then a law professor at Northwestern University, and two graduate students, Stephen Sugarman and William Clune. Their book, Private Wealth and Public Education, became the "bible" of the school finance reform movement. The book developed the constitutional standard of "fiscal neutrality" which states that the quality of education must not be a function of wealth, other than the wealth of the state as a whole. The state should see to it that all districts wind up with the same amount of revenue for the same amount of tax effort.

It was an idea that John Serrano could agree with. He was the father of a 7-year-old boy attending a school in East Los Angeles. In 1967, the school's principal told Serrano his son was bright and therefore ought to move to a district with greater resources. Serrano moved his family to suburban Whittier, but he agreed in 1968, along with other parents, to become a plaintiff in a lawsuit filed against the State Treasurer, Ivy Baker Priest, and other public officials. Citing what became a symbol of the suit, the plaintiffs pointed out the example of Baldwin Park Unified School District, with expenditures of \$577 per student in 1968-69 raised through a tax rate of \$5.48, compared to Beverly Hills Unified School District, which was spending \$1,232 per pupil with a rate of only \$2.38.

A lower court dismissed the suit; but, on appeal the supreme court ruled that there were grounds for a trial and indicated that the system could indeed be unconstitutional. The court sent the case back to the Superior Court of Los Angeles for fact-finding before Judge Bernard S. Jefferson.

The Serrano I ruling gave reformers a lever to move legislatures in the direction of equity. Others with an interest in the school system, hoped -- or feared -- that it would break the status quo.

The legislature did respond to the ruling in 1972 and 1973 while the case was being heard, but only partly because of the lawsuit. A property tax revolt was simmering. The Watson initiative, a precursor of Jarvis-Gann, was defeated but threw a scare into Republican Governor Ronald Reagan and the assembly's Democratic leadership. To win support from the educational establishment, some new programs for schools were included in Senate Bill 90, but the main concern of the political leaders was property tax relief. Almost half of the \$500 million in state revenue appropriated by SB 90 went to reduce school district property tax rates.

But the bill did increase foundation program levels dramatically thus helping to "level up" low expenditure districts. The bill also reduced most of the many "permissive overrides" that had allowed school boards to levy taxes for certain special purposes without submitting them to the voters.

A major innovation of SB 90, however, was to impose "revenue limits" based on a district's actual spending in 1972-73. The limits, part of Reagan's desire to control educational spending and limit property tax increases, could be exceeded only by a vote of the district electorate. Also, there were to be adjustments each year for inflation, with larger increases allowed for low spending districts. Districts spending above foundation program levels were

"squeezed" by being permitted to increase their expenditures less. The aim was to narrow expenditure gaps over a period of time.

But Judge Jefferson ruled on April 10, 1974 that the measures in SB 90 were inadequate. He said that the lack of uniform tax rates for a given expenditure level persisted. There were still too many loopholes, such as the ability of a district to vote to override its revenue limit. He also cited a \$125 per student flat grant which in the California system goes to all districts regardless of their wealth. Jefferson said wealth-based differences, aside from categorical funds for special needs, must be equalized to within \$100 per student by 1980.

Two other substantial educational bills were guided through the legislature in 1975 and 1976. They increased revenue limits, added urban general aid, and severed adult education into a separate finance system. They also restricted the ability of extremely high spending districts to vote overrides.

As the Serrano case moved towards a final decision before the supreme court in 1976, the California school system looked like this: about 4.3 million students attended grades K-12 in 1,040 districts ranging in enrollment size from less than 100 to 600,000 in Los Angeles. More than a million students came from homes with poverty-level income. More than half a million spoke little or no English. Close to another half million had physical or mental handicaps.

Under the state's "partnership" foundation program, state aid was supplied in approximately inverse proportion to each district's property wealth. The state used a computational rate to figure the local district's share towards the foundation guarantee per child. This guarantee had been raised through the various school bills of the decade to \$1,068 per student in unified school districts. If a district's assessed valuation was too low the state made up any balance needed to reach foundation program amount. If the district's computed share exceeded the foundation it got no aid except for the \$125 flat grant -- called basic aid.

Through the various reform measures, the expenditure gaps between districts had narrowed a little, from a ratio of 3.6 to 1 in 1972 to 2.6 to 1 in 1976. By 1976, 77 percent of students in unified districts were within a \$200 expenditure differential near the foundation level. But revenue limits and rising assessed valuation in some districts were driving tax rates down. By 1980 the proportion of students in tax equity status would have dropped by 80 percent, according to the California Senate Research Office. In 1976, about 15 to 20 percent of California students still lived in high-expenditure, low tax-rate districts. Poorer districts were better off in one sense: they had been "leveled up." But in some respects they were worse off in comparison to rich districts.

At the end of 1976, the supreme court noted the progress that had been made, but also pointed out the deficiencies. It upheld Judge Jefferson and

declared the California system of school finance in violation of the state constitution's equal protection clause.*

THE POLITICS OF AB 65

When the 1976 legislative session opened, there were hopes among some in the education community that conditions were right for meeting the 1971 and 1974 court rulings. Some might even have looked for a more generous attitude on the whole towards education. There was a substantial increase in the Democratic majority and a new Democratic governor, Jerry Brown, had replaced the anti-education Republican governor, Ronald Reagan.

But in his inaugural address, Brown made only a vague and uninspired reference to Serrano and education: "The uncertainty of the economy, as well as the need to provide a fair system of school finance, makes it imperative to keep state expenditures within current revenues," he said. "For a long time, Jerry just seemed to be reissuing Reagan's press releases, which said in effect, 'Not another penny for those bastards until they reform,'" said one Sacramento insider.

If it hadn't been clear before, it soon became so: Brown was not the kind to freely open the state treasure chest to any interest, education included. And, as Reagan did before him, Brown fretted about the growing resentment among California property taxpayers over their mounting burden. Brown, accordingly, promised there would be no increases in state taxes to add to that burden.

Although Brown complained about the effectiveness of educational structures and programs in the state, he took little action to improve them, according to his critics. Brown did, however, forego the usual appointments (housewives and businessmen) to the State Board of Education. Michael Kirst, Associate Professor of Education at Stanford University, and an active member of the national school finance reform "network," was appointed to the board and became its president. But another Brown appointee with school finance expertise, John Pincus of the Rand Corporation, resigned in August 1976, because of what he said was Brown's lack of action on school reform.

Brown, however, was to make a major move that month. It was apparent that the supreme court would make a ruling on the Serrano appeal sometime later that year. And because it was expected to be an adverse ruling, from the defendants' standpoint, the legislature would probably have to act in the 1977 session. Brown may have been prompted to enter the educational finance area by another factor, however. It was becoming apparent that the state was reaping a

*The U.S. Supreme Court had ruled in March 1973 in Rodriguez v. San Antonio Board of Education, a case similar in most respects to Serrano, that the Texas system, though inequitable, did not violate the federal constitution. The Serrano II ruling, and other suits like it, were thus limited to state constitutional grounds.

considerable surplus from its progressive income tax and sales taxes in a time of rising inflation. It appeared as though it would be possible to foot the bill for both property tax relief (already a legislative "must" matter for 1977) and school equalization to comply with Serrano. It was not complete compliance, but "substantial."

The Mission of the Department of Finance

In August of 1976, Brown called in staff members of the Department of Finance and gave them a little job: design a complete, comprehensive school reform package that covered more than school aid equalization.

One of the figures in Sacramento who had been urging Brown to support a comprehensive approach was Wilson Riles, the superintendent of public instruction, and a key figure in the AB 65 story. Riles had been elected to his post in 1970, in the Reagan administration years. He was greeted with hosannas by the educational community, both for his own qualities and because he was replacing the inept Max Rafferty. Riles retained the respect of legislators through the years, as he quietly worked to see his ideas realized, especially the Early Childhood Education program (ECE), an attempt to restructure and revitalize the way in which schools operate. ECE aimed at providing individualized instruction to students based on plans drawn up by local school site councils. Parents were to play a strong role on such councils. In 1976, the program was serving over half of the pupils in kindergarten through third grade at a cost of \$100 million. It was no secret that Riles wanted badly to see the concept expanded. The legislature, in fact, had passed RISE, a similar program for the high schools, but Brown had vetoed that legislation.

Riles and key aides worked to convince Brown to endorse the ECE concept and include it in an overall education plan. Politically, any bill would have to include some such measure to satisfy Riles and gain the support of the department of education.

"Wilson and I spent a lot of time with the governor," said John Mockler, long-time consultant to legislative committees and a Riles staff member at the time. "We pointed out what happened to Reagan. When he left office, expenditures were \$2.9 billion higher for education. And he looked around and said, 'How did that happen?'"

"So we told the governor: Do it comprehensively, not piecemeal," Mockler said. The ECE concept of small, parent-controlled school councils may have appealed to Brown's inclination for the "little is better" approach.

In all, the time seemed right for school program changes, as well as finance reform. They went together: change would not come after the money was handed out. You insist on it before.

In giving the department of finance its mission, Brown had a laundry list of requirements: restructure schools along the ECE model, but expanded to grades K-12; "substantially comply" with Serrano; eliminate slippage in state

share of school costs;* provide annual adjustments related to "society's ability to pay;" remove annual pressures for more money; recognize needs of special students and schools; maximize property tax relief; control growth of school expenditures; retain principle of local control; no decrease in program levels of any school; no statewide or countywide tax; no phase out of consolidation of any school district; deal with problems of the teachers' retirement system. And, of course, no increase in state taxes.

The department of finance set up a four-person school finance unit and assigned other staff analysts to assist in special assignment areas, such as bilingual education, educationally disadvantaged youth, etc.

The Legislative-Executive Task Force

At about the same time, key legislative leaders were also anticipating the Serrano ruling. Leroy Greene, a Sacramento Democrat and chairman of the Education Committee, and Willie Brown, chairman of the Revenue and Taxation Committee, initiated a legislative-executive staff task force to work out a data base and computer simulation model for the analysis of alternative proposals for meeting the Serrano mandate. The system was also to show the impact of such proposals on different types of taxpayers and school districts.

The composition of the task force indicates the extent of effort and input. In addition to members of Brown and Greene's staffs, other participants came from the Assembly Ways and Means Committee, the State Board of Education, the Department of Finance, the Franchise Tax Board, the Board of Equalization, the Legislative Analyst's office, the Senate Finance Committee, the Senate Education Committee, and the Senate Office of Research. Also, school finance experts from some educational organizations were invited to participate in task force meetings.

Obstacles to Compliance

One of the most difficult conceptual problems related to the Serrano rulings stemmed from the court's apparent misconception of the reality of school population demographics. The court assumed that school districts were homogeneous, corporate entities. School districts with low total assessed valuation were thus "poor," i.e., low-income families and children, lived in them. Over in Beverly Hills, Mill Valley or Palo Alto, all with property of

*When assessed variations went up faster than increases allowed in the school foundation formula, the state's share "slipped." This feature had been shifting state school support to local property taxes, adding to the state treasury but increasing the local burden.

high total value, the affluent lived in style and saw that their children were schooled in the same way. But research showed that in California, low-income children were almost randomly scattered among school districts. And high property wealth districts were not, as a rule, high income residential suburbs. They were large cities such as San Francisco, or small cities like Santa Clara, or rural districts. San Francisco, Oakland, Long Beach, San Diego and Los Angeles were all at or above the state average in assessed valuation.

San Francisco was often cited in debates over Serrano compliance because it clearly illustrated the complexity of the "rich district-poor district" issue. Although it has expensive property, San Francisco also has one of the highest concentrations of low-income families in the state. And, like all big cities, San Francisco had to deal with the special and more costly problems of the disadvantaged. The property tax revenues of the city were subject to higher costs for police, fire and other services, when compared to smaller communities. This is the "municipal overburden" factor. So, if an equalization formula zeros in on high property wealth districts, including those like San Francisco, and requires them to limit spending, or raise taxes to support current programs while redistributing a share to poorer districts, it could actually penalize low-income property owners and students in "high wealth" districts, which was hardly the intention of Serrano.

Rural districts, even high wealth ones, also are likely to have many poor children. And such districts have special costs for transportation and heating. Of the 35 highest-spending unified districts, 27 were small rural ones with high expenses.

Staff members studying Serrano compliance alternatives were faced with a decision: focus on taxpayer equity, which would theoretically produce a system with equalized tax rates but wide expenditure variation, or focus on expenditure differences, and perhaps wind up with a system with no expenditure differences but tax rate disparities.

Legislators were divided on whether to concentrate on tax equity, expenditure equity, or both. As it turned out, the assembly approach stressed reduction of tax rate disparities along with large categorical aid increases. The senate had its own bill, which concentrated on reduction of expenditure variations. That bill, SB 525, had virtually no categorical aid measures in it. The choices also reflected political differences between the two chambers, as will be discussed later.

The Serrano mandate, as promulgated by Judge Jefferson, did not, it should be noted, require that every district have equal expenditures so long as the state insured that for the same tax rates children got educational resources equal to those in other districts. Property taxes were not precluded as a source of revenue. They just had to be "neutralized." And, finally, Jefferson's ruling did not require more money for school purposes, only equalized funding.

Alternatives

Jefferson explicitly avoided imposing a court solution. But he volunteered some "reasonable" alternatives:

Full state assumption, funded by a statewide property tax.

Consolidation of the 1,040 districts into 500 more wealth-equalized ones.

A split roll property assessment with a statewide property tax or industry.

A voucher system.

District power equalizing.

Except for power equalizing, the suggestions were judged politically or technically impossible. Full state assumption would cost \$4 billion. A new statewide tax would have to be levied at a \$4.89 rate, or income taxes would have to be doubled or the sales tax increased 5 cents. Consolidation would be a technical nightmare and a political absurdity, some observers felt. A split roll assessment system involved constitutional questions and would raise the ire of the business lobby. Attempts at voucher systems had failed and many considered them threats to the public school system.

District "power equalizing" would require substantial amounts of state dollars and/or "recaptured" funds from high wealth districts. This was the approach taken in AB 65, using the surplus for the state's share plus some money "recaptured" from high wealth, high-spending districts. Complete compliance with the Serrano \$100-per-student mandate through this approach was still considered too costly. But it could be used to move towards substantial compliance.

Extensive leveling down of expenditures was also rejected early on by the major parties considering legislative alternatives. Skimming some cream from high spending districts that wanted to spend even more or forcing them to impose a minimum tax and redistributing the proceeds would be tough enough politically. Forcing them to cut their budgets down to some average level was another. It meant angry voters -- parents, educators, school employees.

The Governor's Program

Brown unveiled what he called his New State School Program before the State Board of Education on January 14, 1978, a few weeks after the Serrano II decision was announced. It called for \$4.3 billion to be spent over the next five years. In the first years, about \$584 million would go for Serrano equalizing measures with \$312 million for school reform and special programs. The bill included another \$276 million in funds to allow some school districts to lower property taxes. Brown had already proposed another \$480 million in tax relief not linked to the schools.

Because the package would be funded from state surpluses, there would be no new taxes. But, for the same reason, the school bill and property tax

relief would have to be coordinated, based on projections of future state income.

The governor's plan, as devised by the department of finance covered five areas: Serrano equalization, restructuring (school improvement); economic impact aid for districts with imbalances of disadvantaged or bilingual students, special needs of the handicapped and funding of the state teachers' retirement system.

Tax rates for very wealthy districts would be frozen to prevent future increases. The equalization money would enable the principle of "equal revenue for equal tax effort" to prevail in districts containing about 80 percent of the state's pupils. The \$125 per pupil basic aid grant would be eliminated. Foundation program levels would be increased, and the state's share of support would be increased yearly to prevent "slippage." Spending above the foundation program level would be guaranteed to yield equal dollars for equal tax effort (dubbed the GYP for Guaranteed Yield Program). There was a relatively stiff recapture provision. The recapture provision would have yielded an estimated \$195 million per year in 1981-82 from the high wealth districts.

Reaction to the plan was generally favorable, at least in public statements. Some opposition was predictable.

As for recapture from high wealth districts, Willie Brown of San Francisco said simply: "Well, you know, I'm not going to sit still for that. . .because I want to get re-elected." The Speaker of the House, Leo McCarthy, also represented a San Francisco district, and wore a worried look for days after the plan was announced. Clearly, his support would be vital, however, in securing passage of any educational bill.

The state board of education and Riles had words of cautious praise. The Republican minority applauded the plan. Said assembly leader, Paul Priolo, who pledged the 23 GOP votes to it: "Doggone it. I raised hell with the governor for two years for just talking and not doing anything. Now he's doing something to follow up that rhetoric." Generally, division on the educational bills of the 1977 session did not fall along party lines.

There were some political "boo-boos" in the plan. Assemblyman Greene agreed to carry the governor's plan in the assembly but only after some of these obvious political "mistakes" were eliminated. The plan, for example, proposed different funding for special programs for the gifted, bilingual education and the educationally disadvantaged, which had been funded by categorical subsidies. Under the new plan, money for these programs would be given directly to school districts which would decide for themselves how to use it. In addition to alienating the constituencies of those programs, Greene was opposed to giving school districts more unfettered funds.

"While everybody wants local control," he said, "I will not be satisfied with just throwing money at school districts without buying education with it. If you just give everybody a raise, that doesn't improve education one iota," he said.

On the other hand, these were critics who wanted more money for general school expenditures. Some wanted less money for property tax relief for

low-wealth district. Most of the state education organizations wanted greater increases in the state foundation program. Basic aid districts opposed elimination of the \$125 per pupil grant.

Once again, we return to the school improvement program issue, which took up the largest and often most heated number of hours of negotiations devoted to AB 65. In the governor's bill, based on a plan advocated by Riles, districts could participate in the creation of "community councils" at the local school site. If they didn't they'd lose about \$66 per child in incentive money. The council was to be composed of parents, teachers, principals, and, at high schools, students. Teacher groups, as to be expected, were uneasy about such parity, especially because the councils would have authority to assess school needs and prepare a plan to provide individualized instruction to students. The state board of education would guide this effort. The state superintendent's office would monitor and evaluate local plans and their execution. Teachers and administrators would be required to progress according to the school site council plan. If they didn't they would not be eligible for a salary increase other than a cost-of-living hike.

Some key senators, the California School Boards Association and teacher organizations either opposed the plan, often vehemently, or remained officially neutral. Critics of the plan, including the legislative analyst, A. Alan Post, said there was no evidence that ECE had improved student performance. Moreover, teachers had to contend with more paperwork and school districts with state regulations, critics charged.

"It was seen by many as a question of local control. Many people objected to the state monitoring of local classrooms. They saw the program as 'empire building' by Wilson Riles," said one observer of the AB 65 process.

In the final version of AB 65, the school improvement measure was altered considerably, both from the governor's initial proposal and the version in AB 65 as it passed the assembly. Funding levels were substantially reduced, the role of the state department of education was reduced, paperwork was cut down and local schools were given more flexibility by decreasing the number of mandatory program components. Many of the changes were demanded by the senate.

At times, Riles and his office stood alone in support of the concept against attacks, primarily from the senate side. But he had the high card of the governor's desire for some kind of school restructuring behind him.

AB 65 was introduced on March 31, 1977 in the assembly by Greene. Among some of the changes from the governor's version were these: The \$125 basic aid would be phased out over five years instead of dropped immediately, special programs would be funded separately, property tax relief was shelved so more money would be available for expenditures and the recapture mechanism was modified. The bill went through several metamorphoses before it was approved by the assembly that summer. Meanwhile, the senate had been working on its own bill.

Senate Bill 525

Senator Albert Rodda, long-time chairman of the Education Committee and now head of the Finance Committee, was the senate's highly respected, almost revered expert on education. "Whatever Al says, we'll go for," was the prevailing attitude of the upper chamber. Rodda's bill, SB 525, unlike the assembly approach, was designed to address Serrano equalization matters only. The \$3.8 billion bill had no money or provisions for special programs. Most of the money was to be pumped into basic education support, with those in lower wealth districts getting much more, thus narrowing expenditure gaps. Within three years there would be less than a \$200 difference in spending per child for 96 percent of the state's public school pupils. Again, this was substantial, not complete compliance. Some observers felt Rodda could have gone further towards compliance, and the senate would have backed him. But it was his perception that his plan went as far as was politically practical.

Rodda, who was a teacher before assuming his lawmaking career, like many members of the senate, was suspicious of the "reform" advocated in the assembly bill. The senate generally used its bill, with its lack of program provisions, as a bargaining lever to secure changes in the AB 65 school restructuring proposal. Educational lobbyists generally went to the senate with their own complaints about that and other school program matters. Teacher's unions and other school groups preferred the increases in general foundation aid advocated in the senate bill. Such money without strings can be negotiated for in salary discussions.

The decision to deal with equalization matters only or to construct an omnibus bill is a basic one for any legislature contemplating school reform. In the California case, the senate most likely realized it would have to give in and support a more comprehensive measure. On the assembly side, advocates of program reform also compromised substantially in the end.

As for Serrano compliance measures, the senate and assembly approaches were blended.

"The equalization provisions of AB 65 were not nearly as controversial as the other non-Serrano matters," says James Murdock, head of the assembly education staff and one of the principal architects of AB 65. "In terms of total number of hours, we spent three or four times on school improvement as we did on all of the school finance measures."

The final version of the bill was accepted unanimously by the six conferees from the assembly and senate in August. The bill was adopted overwhelmingly in both houses. Significantly, the major property tax relief bill, which cleared conference committee approval at the same time failed to get the 2/3 majority. Both bills had been "competing" for the state surplus and at one point, conferees had to scale down both bills to accommodate projections of state surpluses.

Although AB 65 passed and the tax relief bill failed, the latter's failure came back to haunt the educational community the next June when voters passed Proposition 13, partly in disgust over Sacramento's failure to agree on a relief bill.

AB 65 did indeed have a little something for everything although generally most parties felt their "little something" was too little.

"I'm satisfied that at this stage of the game this is the best we can do," said Senator Ralph Dills (D-Gardena) a member of the conference committee. "But I'm not contented."

"We would like more for education," Greene said, "but we are pleased. . ."

"Politically, this was the best we could do. I think it's a good compromise," said Senator Nicholas Petris (D-Oakland).

Legislative analyst Post said the bill represented "the tail wagging the dog." He criticized the conference committee for deciding to go ahead with scaled-down special programs and for watering down features designed to meet the Serrano order.

But the bill passed both chambers because, in Murdock's words: "Most were willing to take a little bit of medicine to get some sugar."

That observation applied to most of the interest groups that participated in the making of AB 65.

Interest Groups

Under a system with revenue limits, as SB 90, most of California's members of the educational community had a stake in increasing the foundation level of support. That fact helped to bring together organizations into a common effort, even those with apparently conflicting interests. In California, a group called the "Tuesday Night Conspiracy" was organized to coordinate, to the extent possible, the lobbying efforts of educational organizations. The Tuesday Night gatherings consisted primarily of Sacramento-based lobbyists. Among members were the legislative representatives of the large cities -- the "Big 5" including Los Angeles, San Francisco, Oakland, San Diego and Long Beach. As a group, because the nature of their district wealth and spending varied, they sought special funds for such big city needs as disadvantaged students. The California Federation of Teachers, the California Teachers Association, the Association of California School Administrators and the California School Boards Association were some of the other members of the Tuesday Night group.

Two lobbying groups with clearly defined -- and conflicting -- goals also participated: Schools for Sound Finance, an association of high wealth districts, founded by Beverly Hills School Superintendent Kenneth Peters, and the Association of Low Wealth School Districts.

As a group, the Tuesday Night gathering developed a "prototype" for school reform to use as a guide in lobbying efforts. "It was a statement of the limits we could all accept. How much of a cut the high wealth districts could take; how little the low wealth districts would be willing to accept," said Ron Prescott, lobbyist for the Los Angeles Unified School District.

Some of the provisions of the prototype found their way into AB 65. The group also had a say in shaping the bill through school finance experts from member organizations who participated in task force studies and legislative staff meetings.

Individual members of the Tuesday Night group were not bound by the prototype, however, and most separately pursued their own interests among the legislators.

In the end, Schools for Sound Finance supported AB 65 because it had succeeded in reducing some of the stiffer "recapture" mechanisms that would have affected its member districts. "We could have come out much worse," said Peters of the Beverly Hills district.

The Association of Low Wealth Districts also endorsed the final version of the bill because, although it did not represent total compliance, it had foundation program increases, an equalization mechanism and other aid. The only other organized constituency for total compliance was the Western Center for Law and Poverty, the legal aid group that represented the plaintiffs in the Serrano case. The organization had a Sacramento lobbyist who conceded he carried little weight in the AB 65 bill-forging process, since most parties had agreed early that total compliance was out of the question.

Members of the legislative analysts office pointed out repeatedly that the senate and assembly bills were not adequate to comply with Serrano. They were also "pretty much shut out after a while," according to one active participant in the design of the bill. "We were trying to get a bill passed and they were talking about abstract compliance."

John McDermott, Serrano's attorney, has observed that the forces controlling the bill could have tried to reach a solution that would have satisfied the Serrano plaintiffs and avoided further legal proceedings. "Common ground did exist; perhaps enough so that modifications could have been made in the bill such that the remaining differences would not be worth contesting," McDermott said in an analysis of AB 65.

Other interests that were accommodated in AB 65 were the Black and Chicano caucuses in the assembly. (At one point, a vote on the bill was delayed because the Chicano legislators felt the formulas and programs favored Blacks more than Spanish-speaking pupils.)

As far as forcing Serrano compliance measures, another important "lobbying" force was the computer printout that showed the tax impact of various proposals on legislators' school districts.

"I'd say those printouts were of equal importance with coalition building and lobbying by the organizations," says Murdock. "I don't care how much support you build or how much muscle you have to get a bill through. If it's going to show substantial tax rate increases in a number of school districts, the member (legislator) is not going to go for it."

AB 65 -- The Bill as Passed

AB 65 contained several Serrano-compliance features, including:

1. A foundation program increase totalling \$1.8 billion, a figure between the assembly and senate versions.
2. An accelerated revenue convergence mechanism.
3. A guaranteed program to equalize expenditures above the foundation program.
4. A recapture mechanism to be phased in over five years.
5. Reduction of the basic aid grant from \$125 to \$120.

The bill also contained: funding of \$528 million to meet the needs of handicapped children; an expanded \$248 million and revamped state categorical program for disadvantaged and limited-English speaking pupils; special funds for the disadvantaged in big cities; new state money for textbooks and instructional materials; and the new School Improvement Program, with the modifications discussed early and with funding of \$300 million over five years (only enough to cover participation of 52 percent of pupils in grades K-6; 12 percent of pupils in grades 7-12 by 1979-80).

With its \$4.3 billion price tag, the bill is one of the largest and most ambitious ever passed in the nation, its defenders maintain.

"California now has the most comprehensive legislation for education policy in the nation," said State Board of Education President, Michael Kirst. "No other state has come close to providing in one bill such a multi-pronged attack on education problems."

Governor Brown, members of the senate and assembly, the state board and the superintendent of public instruction, all expressed confidence that the state supreme court would be "reasonable" and approve the bill. A lawyer was hired to defend the bill in court, since McDermott indicated the Serrano plaintiffs considered the bill a sham as far as Serrano compliance was concerned.

A New Legal Challenge

AB 65's defenders said that under its provisions, 81 percent of the state's students will live in districts where wealth-related disparities will be within \$200 per pupil by 1982.

McDermott noted that that is not 100 percent within \$100 per pupil by 1980, as Judge Jefferson ordered. The 85 percent standard means that some 645,000 students will live in non-equalized districts.

"Substantial compliance" has no standing before the law," according to McDermott. "It is essentially a reflection of the mostly irrational process of

what will produce a 2/3 vote of both houses of the legislature in favor of any appropriation."

In December of 1977 the plaintiffs in Serrano filed a petition before the supreme court challenging the new law. The petition argued that the school finance system remains unconstitutional under AB 65 because the law permits high wealth school districts to enact permissive overrides; permits such districts to use their unused voter overrides in calculating revenue limits; retains the \$120 basic aid grant; and allows high wealth districts to reach the foundation program minimum with much less tax effort than required for low wealth school districts.

The case of Baldwin Park and Beverly Hills was cited again. The petition indicated that even by 1981-82 revenue authority in Beverly Hills would exceed that of neighboring Baldwin Park by \$2,035 or 61 percent. The tax rate in Baldwin Park would still be \$.73 higher than Beverly Hills. Although the tax rate disparity has been reduced since the 1971 Serrano I ruling, the difference in the number of dollars per child has increased by \$430 between the two districts.

The supreme court declined to rule on the merits of the petition in January, 1978. The plaintiffs indicated they planned to reintroduce the petition in the Superior Court of Los Angeles. But before they reached that point, the Jarvis-Gann initiative hit the California scene.

Lessons of AB 65

Before moving on to a discussion of Proposition 13, a few observations can be made on factors that helped AB 65 make it through the legislature and the governor's desk.

The existence of the court decision itself, was, of course, a key factor. The high court's reaffirmation was a decided prod to action and the occasion not only for equalization efforts, but broader reform as well. High wealth districts seemed resigned to some sort of lid or recapture and their lobbying efforts were aimed more at lessening the impact of such measures rather than eliminating them from a comprehensive bill. As noted earlier the lack of clear guidelines both gave the legislature a broader hand in shaping a bill, but at the same time made it harder politically. The final product would be the legislature's. Members could not tell their constituents that the solution was imposed by the court.

Some observers feel the existence of the Serrano suit and the lengthy legal process it went through enabled the state to drag its heels and settle for partial responses while the suit was pending. But during that time, lawmakers and especially some key staff members acquired expertise in the school finance area. That expertise was critical to the forging of a successful bill.

Also contributing to the climate for reform were three detailed studies of the inequities of the California system conducted in the early years of the reform movement. Special seminars and meetings convened by such organizations as the Education Commission of the States, the National Educational Finance

Project and the National Conference of State Legislatures, also contributed to the creation of awareness, expertise and possible solutions to school finance problems. School finance experts outside the Sacramento circle also provide input. Kirst, of Stanford University, provided a link between the school reform "network" and state government through his position on the state board of education. Much of the work of scholars and organizations was financed by private foundations, notably the Ford and Carnegie foundations.

In a review of the AB 65 effort, the department of finance noted some of the "pitfalls, problems and lessons" of its experience in that effort. One of those lessons was the need to develop and support a sufficient number of skilled Sacramento-based staff members. In the California experience, such key staff members had tremendous work loads. Sometimes it was simply a matter of time. In the case of AB 65, the comprehensive nature of the bill also added to those burdens, according to the Department of Finance study. The study noted the need for compromise in order to build a coalition of support. But because the package was so broad, it was often difficult to negotiate compromises for various sections and still maintain a balanced, non-conflicting package, the report said.

One factor that helped to facilitate the work load was the early establishment of a computer and data pool among the executive and legislative staffs. The agreement eliminated public debates over numbers and allowed the legislative members to concentrate on policy questions. On one occasion when there was a conflict, the members ordered the staffs to come up with an "agreement" on figures. That occurred when the department of finance and the legislative analysts office disagreed on estimates of how much state money would be available for the school finance bill. Determining the amount of money available was, according to the Department of Finance, a necessary first step. The department suggested in its report that any legislature wrestling with school finance determine early in the game how much state revenue will be available in coming years.

Of course, unlike California, most states' surpluses, if they have one at all, stop well short of the billion dollar mark. The existence of the surplus in California was, in the opinion of most observers, one of the most important factors leading to passage of AB 65. It enabled the legislature to take a general "leveling up" approach without the need for raising taxes or trying to impose new ones, such as statewide, split-roll or countywide property taxes. Such new taxes would have activated business and agricultural lobbies which, for the most part, were not particularly active in the AB 65 debate.

PROPOSITION 13

In a record-breaking 67 percent turnout, California voters approved the Proposition 13 initiative on June 6, 1978, by a 2-1 margin. The measure limits the property tax to one percent of 1975 fair market value. Yearly increases in assessments are limited to two percent or less, unless a property is sold. The measure also requires a two-thirds vote of "qualified electors" to impose any

"special" tax at the local level. Any changes in state taxes must also be approved by a two-thirds vote of the legislature. The effect of the constitutional changes was to reduce local government revenues by about \$7 billion and local property taxes by 57 percent.

Californians are still trying to assess the long-range consequences of Proposition 13 on all aspects of government, which relied on property taxes for more than half of its revenue. But the state did not have much time to ponder the short range effects. Initially the drastic loss of revenue appeared to be catastrophic. But, once again, the state surplus "grew" to somewhere around \$5 billion, providing bail-out funds for schools, municipalities, counties and special districts. This time, Sacramento did not have the luxury of six years to respond to a mandate for change. Instead, political leaders had less than a month to come up with an interim solution to carry the state through the coming fiscal year. And lawmakers did respond, with SB 154, and they did it by the July budget deadline.

The Bail-Out

A total of \$2.2 billion was allocated to schools from a \$4.2 billion bail-out package. A sliding-scale formula was used, imposing cuts ranging from 9 to 15 percent, depending on a school district's wealth and expenditures. High wealth districts sustained the greater losses. Overall reductions totalled about 10 percent.

Education got almost half the bail-out money and part of the reason education did as well as it did had to do with AB 65. First of all, the 20 percent overall reduction was based on the upcoming 1978-79 school budget year. And, under AB 65, districts were scheduled for an average 10 percent increase in state support. So, for some districts, the Jarvis-forced "cuts" just about washed out. Also, because of the work that went into AB 65, there was a reluctance to jeopardize its provisions. And, partly because of the AB 65 effort, there was a sophisticated data system that could readily show the effects of different kinds of allocations on all school districts. Other local governments had no such data base to support their pleas for bail-out money.

Proposition 13 and Serrano Mechanisms

Many school finance experts in California feel Proposition 13, renders the equalization mechanisms of AB 65 moot. In effect there is a one percent statewide property tax. Some say expenditure variations will narrow more rapidly post-Proposition 13. "There is at present probably no defensible basis anymore in California for any differences in basic school spending per student. The combination of the Serrano ruling and the uniform property tax convinces me of this," says Charles Benson at the University of California in Berkeley.

Under Proposition 13, the definition of "high wealth district" seems reversed. High wealth districts relied more heavily on property tax revenues than low wealth districts, who depended on larger amounts of state aid. Take the case of Beverly Hills. When Proposition 13 passed, that community was scheduled to spend \$2,866 per pupil with 94 percent coming from property-tax

revenue. Baldwin Park had a budget of \$1,497 per pupil, but just 25 percent was to come from property tax funds.

Under Proposition 13, Beverly Hills would lose \$1,760 per student or 61 percent of its total budget. Baldwin Park, however, would lose just \$237 per student or just 15 percent of its funds. Thus Beverly Hills could have wound up spending \$1,106, less than that of Baldwin Park.

But this "leveling down" was precluded by the bail-out formula. Legislators could not bring themselves to give out the surplus on an equal per-student basis without regard to the current spending level of a school district. Under the sliding scale formula, Baldwin Park lost about \$75 per pupil while Beverly Hills lost about \$400, reducing, if not eliminating the spending gap between the two.

But in the future, given the Serrano decree, the legislators can hardly justify any aid formula that gives more money to some districts than others, merely because some had been spending more in local money in the past. Proposition 13 will thus enable, if not require, more leveling down in the next round of legislation. And because the mandate has come from "the people," it will make it politically easier to accomplish equalization by leveling down, something that was virtually unthinkable in the past.

Some finance reform experts see a danger to the public school system if higher-wealth districts are indeed leveled down substantially. They fear that parents will abandon the public school system in favor of private education. There are proposals in fact, for a voucher initiative, and for a supplemental voucher system that would enable families to purchase educational services beyond a core educational program provided by the public schools.

Other Effects

State Board President Kirst, and others, note that the bail-out bill softened the impact of lost property tax revenues considerably. But many districts still had to cut out or reduce summer school programs, fire employees or put a freeze on hiring, postpone capital outlays, and tap surpluses and reserves. Another provision of the bail-out bill helped school districts financially, but could have adverse long-range effects, according to Kirst.

Under the bill, teacher and staff salaries were frozen, saving school districts the price of even, say, a six percent cost-of-living increase in the current school year. That savings amounts to an estimated \$400 million. It is no savings, of course, to the teachers, and the effect on morale and performance could be more damaging to the quality of education than the loss of overall revenue this year, Kirst says.

The size of the state surplus in coming years is still uncertain and depends on the condition of the economy. But it is likely that there will be less available to support schools and other governmental services.

"We used to have three sources of income: income tax, sales tax and property tax. Now we only have two eggs in the basket," says Kirst. Kirst also feels that although AB 65's school restructuring program and other

categorical program provisions "are still in place," funding is "just a little hazy." School finance experts also expect to see increased pressure to convert categorical monies to general fund revenue in the anticipated era of financial limits.

Back to the Drawing Board

State policy makers will be faced with designing another school finance bill in the coming session since the bail-out bill was a one-year measure only. The virtual assumption of school financing by the state (some propose eliminating the one percent property tax as a school revenue source entirely) raises issues of local versus state control once again. The state could distribute money to the local districts and leave decision making to the districts. But recall the reluctance of assembly leaders and the governor to give out unrestricted state funds in the AB 65 formula. State control of the pocketbook will add a new dimension to the debate, heated enough in the past, over such reforms as the school site councils. The state may opt to maintain local control, but by what local agency: school site councils or school boards? There is also the possibility of statewide teacher bargaining and salary schedules, with the accompanying possibility of future statewide teacher strikes.

One of the lessons of the Proposition 13 "tax revolt" phenomenon is that school finance reformers and other educational interest groups will have to pay more, if not equal attention, to trends and developments outside the usual realm of legislative action on "educational matters." In the anti-Jarvis campaign prior to the Proposition 13 vote, the agency hired to run the campaign decided to downplay effects on education, primarily because school costs were a large part of hated property tax bills. The agency could have, however, played up the \$1.38 billion in property tax relief that AB 65 would have provided to some school districts over a five-year period. It could also have been emphasised that school finance reform had developed of expenditure controls, tax limits, state aid lids and other mechanisms to control spending increases and ease the burden on property taxes. In California, only the schools (through SB 90) were operating under a revenue limit scheme. On the whole, many felt the educational community failed to wage an effective fight against the Jarvis initiative, although the outcome of that issue could have more of an impact on education in California than AB 65, which the educational community worked so hard to create.